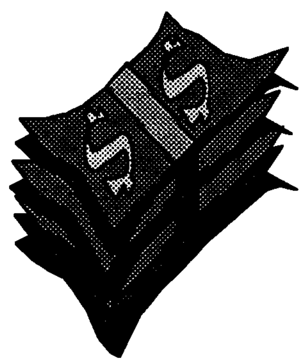
Retirement Savings



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Retirement Savings--Old Programs, New Twists, Great Opportunities

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by

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RETIREMENT SAVINGS--OLD PROGRAMS, NEW TWISTS, GREAT OPPORTUNITIES

What are your retirement fantasies? Whether you dream of world travel or simply maintaining today's lifestyles while volunteering for a favorite cause, it's important to take your retirement seriously--before it becomes a reality.

For the vast majority of Americans, it is unlikely that the U.S. Social Security System and pension checks alone will finance retirement because the power of those benefits are diminishing.

So, it is likely that most people will have to rely heavily on their own savings and investments during retirement.

Once you project how much it will cost to live the retirement life you want, you'll have a realistic goal to work toward. And a company-sponsored retirement plan could help you achieve your goal.

Definition of Terms

Annuity- form of contract sold by life insurance companies that guarantees a fixed or variable payment to the annuitant at some future time; usually retirement.

Bond- any interest-bearing or discounted government or corporate security that obligates the issuer to pay the bond holder a specified sum of money, usually in specific intervals, and to repay the principal amount of the loan at maturity.

Cost-of-living adjustment- adjustment of wages designed to offset changes in the cost of living.

Defined benefit plan (pension plan)- plan that promises to pay a specified amount to each person who retires after a set number of years of service. Employees contribute to them in some cases; in others all contributions are made by the employer.

Defined contribution plan- plan offered by some employers that allows employees to save for retirement. In some cases, employers contribute to the plan.

Diversification- spreading of risk by putting assets in several categories of investments--stocks, bonds and money market instruments or into several industries, or a mutual fund.

Equity- ownership interest possessed by shareholders in a corporation--stocks as opposed to bonds.

Fiduciary- person charged with the responsibility of investing the money wisely for the beneficiary's benefit.

IRA-Individual Retirement Account- personal retirement account that an employed person in the U.S. can set up with a deposit. A limited amount is deductible, for tax purposes, per year.

Internal Revenue Service-IRS- U.S. agency charged with collecting nearly all federal taxes, including social security taxes.

Mutual fund- fund operated by an investment company that raises money from shareholders and invests it in stocks, bonds, or money market securities.

Portfolio- combined holding of more than one stock, bond or other asset by an individual.

Standard & Poor's 500- unmanaged list of common stocks frequently used as a general measure of stock market performance.

Stock- ownership of a corporation represented by shares that are a claim on the corporations earning and assets.

Tax deferred- term describing an investment whose accumulated earnings are free from taxation until the investor takes possession of them.

Trust- is legally and financially separate from your company. If your company ran into hard times the company can not dip into your 401(k) funds--even if your employer goes bankrupt--creditors have no claim on it.

Variable life insurance- gives policyholders opportunity to earn substantial capital gains on their insurance investment.

Vested- right an employee gradually acquires by length of service at a company to receive employer-contributed benefits. The length of time it takes to become vested varies among employers.

Volatility- characteristic of a security or market to rise or fall sharply in price within a short-term period.

Wall Street- common name for the financial district at the lower end of Manhattan in New York City, where the New York and American Stock Exchanges and numerous brokerage firms are headquartered.

RETIREMENT SAVINGS--OLD PROGRAMS, NEW TWISTS, GREAT OPPORTUNITIES

I. IT'S UP TO YOU

There is one thing that underlies almost everyone's notion of a fulfilling future, and that's financial security. Let's face it. Even the simplest pleasures will be difficult to enjoy if your finances are a major worry.

The fact is, it will take money--perhaps more than you realize--to ensure your golden years are personally satisfying. There are three keys to a successful retirement: careful planning, disciplined saving and smart investing; and a company-sponsored 401(k) plan may be your best hope for retirement savings.

Due to a changing environment, it is up to you to formulate a clear, realistic plan for achieving a secure future. There is a shift away from traditional pension plans. U.S. Social Security benefits are shrinking. In addition, there exists a declining rate of personal savings. Though no one is sure what will be the exact impact because of these changes, taken together, they demand a fundamental change in the way most Americans view and prepare for retirement.

Yesterday's Retirement Money Sources

The sources for the money for retirement have changed from those sources which our elders enjoyed and from which our children will enjoy. Defined benefit plans are rapidly becoming old-fashioned. The U.S. Social Security System has a huge surplus--but it's funds are being rapidly depleted. In addition, author Richard Sasanow labels the savings rate in the United States as "pathetic, lower than any other industrialized country in the world" (Sasanow 1996, 7).

Years ago you didn't think about retirement savings because you didn't have to; someone else did it for you. For example, if you worked for a large company you could count on their taking care of you in return for your 30 years of service.

On the other hand, if you worked for a smaller firm, you could always count on the U.S. Social Security System.

Yet, no matter how generous those sources of your retirement income, personal savings was also considered an integral component of retirement savings.

Today's Retirement Sources

Years ago employees stayed with the same company for 20 or 30 years, and many were rewarded pensions, or defined benefit plans. But today, many employees don't stay with the same company for 20 or 30 years and, those old-fashioned pensions are rapidly becoming the spotted owls of the employee benefit's world. Today, fewer and fewer companies offer them to new employees. Even those funds still around may be underfunded and not have enough funds for everyone who is entitled to a pension. Or the money you get may be less than it should have been and won't be enough to cover all your expenses by tomorrow's living standards.

The U.S. Social Security System is also changing. While most government officials swear that Social Security was never meant to be anyone's major source of retirement income, lots of people used to get by on it. For better or worse. But, despite cost-of-living adjustments through the years, future reliance on Social Security for the bulk of your retirement would be nearly impossible in the current environment. It's no secret that the current Social Security System is heading towards insolvency.

Today Social Security has a huge surplus from which to pay out retirement benefits for people of age 65 and older. However, the Federal government continues to borrow from the fund for other purposes. And the Social Security fund is being depleted. Yet, consensus from the experts is that it will still be around in the next century. But, most likely, the fund will give less to retirees and start later than age 65. Other estimates show that the U.S. Social Security System will be bankrupt by the year 2030.

Finally, what about the money that we have put away on our own? Merrill Lynch, a provider of retirement plans, recently surveyed the retirement savings habits of Americans. Their survey revealed that the average 50 year old had a sum of $2,300 in financial assets and savings (Sasanow 1996, 18). Not a heck-of-alot to live on.

II. ESTABLISH YOUR GOAL

Many financial advisors suggest that assigning an actual dollar value to your retirement dreams will increase your chances of achieving them.

Estimate How Much You Will Need

Within a recent USA TODAY article, writers Anne Willette and John Waggoner provide a formula to get an estimate on how much you'll need to save to finance your retirement. The provided formula is simplistic yet it offers a fairly realistic estimate of the amount of money you will need to save:

> Take 80% of your annual after-tax income. That's probably what you will need to live on in retirement. Let's say $50,000. Determine the

> annual rate of return you expect from your investments. Planners say 8 % is reasonable. Now cut that in half because inflation will erode your return. So, divide the $50,000 by 4%. The answer--$1.25 million ---is what you'll need to have on your last day of work (Willette and Waggoner 1997, 7).

The writers ask you to consider the following before you faint. You also may have income from a company pension and Social Security. If you have a company pension you can assume that a typical pension replaces 18 percent of your final pay. If you are eligible, Social Security typically replaces 31 percent. So, writes Willette and Waggoner, a person who needed $50,000 a year at retirement could reduce that needed-in-savings amount by almost half. Therefore, the writers conclude, you'll need to have only $625,000 saved on your last day of work.

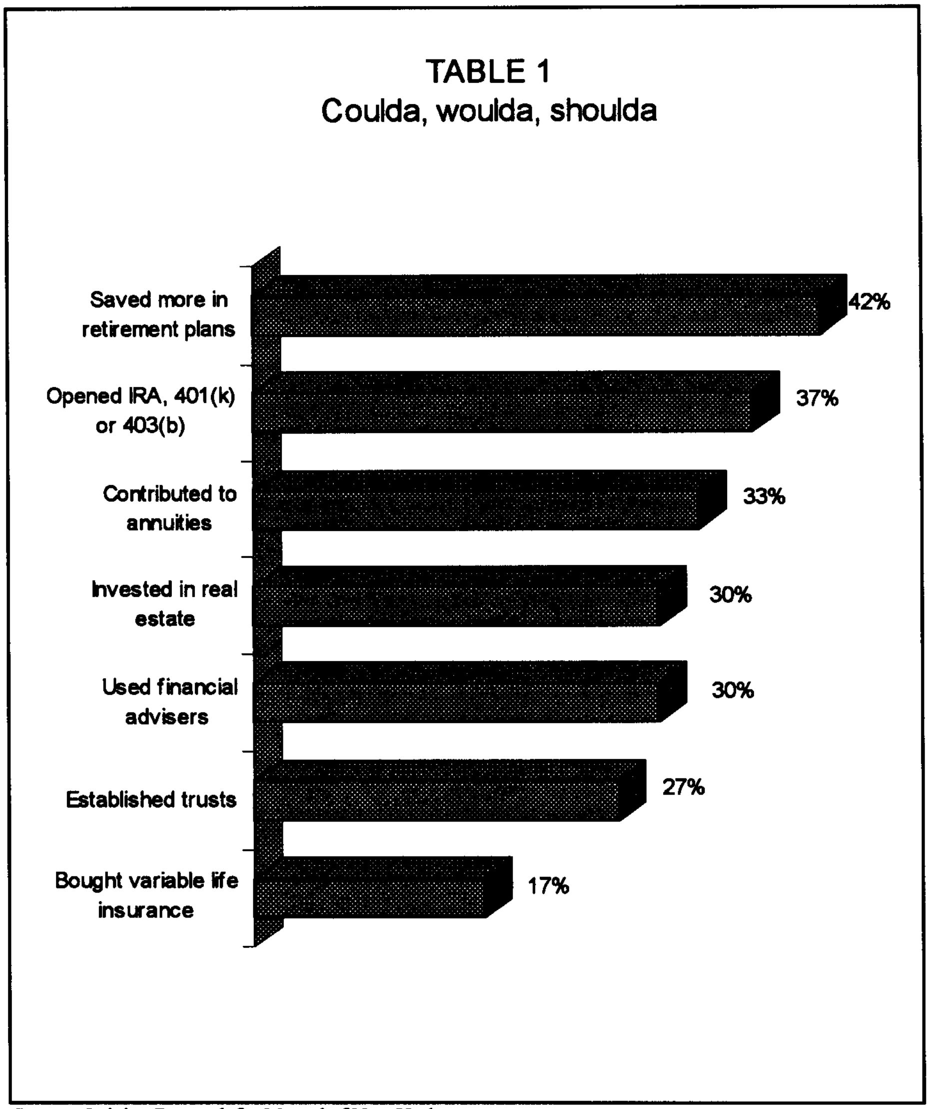
What writers Willette and Waggoner have neglected to tell you is that from 1989 to 1991 42,000 employers terminated their pension plans (Kobliner 1996, 5). Once more, many pension plans are underfuned. In addition, less than one month earlier, Willette reported in her article "Battle booty: Retirement dollars" that "Social Security can't continue to promise benefits after Baby Boomers retire" (Willette 1997, 1).

Hence, if 80 percent of your annual after-tax income equals $50,000, if you have a company pension and considering Social Security, $1.25 million could be the amount you'll need to have saved on your last day of work in order to finance your retirement. Now you can faint.

<u>You Have To Think About Saving</u>

Research has predicted that the savings rate will increase dramatically in the next 20 years as Baby Boomers approach their golden years. Boomers will shift their spending patterns from buying homes and educating their children to recognizing the need to save for retirement.

Table 1 depicts how current retirees rate the success of their retirement strategies.



Source: Opinion Research for Mutual of New York

As shown in Table 1, seventy-nine percent of current retirees wish they had financially planned better for retirement.

Today, you have to think about retirement savings--dependence on someone or another to do it for you is risky. Your best hope for retirement savings could be the 401(k) plan offered by your employer. If the firm you work for is small, a new retirement plan called SIMPLE could serve as your hope for retirement savings.

How 401(k) retirement plans work, the results of my 16 years of contributing to a company-sponsored plan, the effects of compounding, allocation of the plan's funds and the risks of those investment varieties are discussed. Also discussed is the new retirement plan called SIMPLE.

III. THE 401(k) RETIREMENT PLAN

You needn't be an investment genius in order to benefit from a 401(k) retirement plan.

Secure and Better Paying

According to Merrill Lynch research, Baby Boomers are saving only a third of what they need to maintain their lifestyles in retirement (Willette 1997, 1). In her article "Boomers retirement woes not so weighty" writer Jane Bryant Quinn reports the same findings. However, Quinn adds that although "some Boomers will find that they can't maintain their present high standards of living . . . they'll do at least as well as their parents did and probably better" (Quinn 1996, 3).

Quinn goes on to contradict the myth that pension coverage has declined since the days when our parents retired. Today, she states, 47 percent of the workforce is offered an employee-sponsored retirement plan. Back in 1950 only 25 percent of the workforce had such a plan. Quinn states that the plans most commonly offered are 401(k)s and 403(b)s. Both plans require that you contribute money of your own. Skeptics say they're not as good as old-fashioned lifetime pensions. But Quinn writes that David Wise, a professor at Harvard's John F. Kennedy School of Government, says that many Boomers will find that the 401(k) and 403(b) plans are both better paying and more secure.

The covert is that you have to fund your plan and some Boomers aren't contributing enough.

How a 401(k) Plan Works The basic principles of a 401(k) retirement plan are provided in Appendix A. As stated, your employer sets up the plan and you designate a percentage of your salary you want to save and invest in that plan. The plan is subject to government regulations, as well as company regulations.

An Example of a 401(k) Plan In 1981 I became eligible to participate in my company-sponsored 401(k) plan. Prior to my enrollment in the plan I didn't request any information on how the plan worked; I merely competed the half-sheet-sized enrollment card on which I designated the percentage of my salary to be deducted, as well as the allocation of the contributions among the three offered varieties of investment funds.

Fifty percent of my contributions were allocated to the Guaranteed Investment Fund because I felt confident that the fund's name alone guaranteed a financial fortune. Thirty percent of my contributions went towards the Fixed Income Fund, with the remaining twenty percent into the Balanced Fund.

During my first year of participation in the plan, I contributed a total of $465.15 and my company contributed $116.29. Overall investment performance was a disappointing loss of $1.68. See Appendix B.

Due to the plan's poor investment performance, I boycotted by not contributing to the plan during my second year of eligibility. By choosing not to participate that year, I forfeited a guaranteed 25 percent return on my contribution from my company, 14 years of investment performance, as well as the effect of compounding. If I had merely equalled the previous years contribution of $465.15, given the actual investment performance of the plan over the following 13 years, that meager amount of $465.15 would be worth a cool $5,202.07 today.

Table 2 illustrates the activities of my 401(k) plan beginning in 1981 through 1996. Shown are my contributions to the plan, my company's contributions, the investment performances, and the ending values of the plan.

TABLE 2
401(k) Retirement Plan Annual Statement Results

Year	Beginning Value	Employee Contribution	Company Contributions	Investment Performance	Ending Value
1981	0	465	116	-2	579
1982	579	0	0	81	660
1983	660	818	613	132	2,223
1984	2,223	1,083	596	346	4,248
1985	4,248	1,200	818	693	6,959
1986	6,959	1,388	1,036	1,074	10,457
1987	9,941	1,591	1,033	3,454	16,019
1988	16,019	2,692	1,188	5,276	25,175
1989	25,175	3,495	1,467	4,684	34,821
1990	34,821	4,809	1,501	2,892	44,023
1991	44,023	5,695	1,566	4,819	56,103
1992	56,103	6,772	1,625	6,293	70,793
1993	70,793	6,870	1,648	10,804	90,115
1994	90,115	5,500	1,768	7,335	104,718
1995	104,178	3,648	0	9,008	117,374
1996	117,374	0	875	11,544	129,793
Totals		$46,026	$15,850	$68,433	$129,793

As shown in Table 2, throughout the 16 years of participation in my 401(k) plan I contributed $46,026. My company contributed another $15,850, or 34.4 percent of my total contribution. Finally, investment performance totaled $68,433 or 148.7 percent of my total contribution. The current value of my 401(k) is $129,793.

Until most recently, I had put complete trust and faith in the accuracy of my contributions, the designated allocation of my money and proper amount of company contributions. When I received my annual retirement savings certificate, I merely took note of the ending value and filed the statement. Recent examination of those filed certificates revealed an error in the calculation of the company contribution for 1995.

One approach that was correct, and most beneficial in the management of my 401(k) plan was to contribute to the plan at an early age--because time is your greatest asset in saving through your company's 401(k) plan.

The Power of Compounding

No matter what your age or goals, the sooner you begin to save and invest, the sooner you will have time on your side--thanks to the power of compounding.

Compounding works with a "snowball" effect. When you invest your money, it may gain earnings. Any earnings from those investment are reinvested in your account. The earnings can compound or gain additional earnings. Subsequently, the longer you invest, the more compounding can benefit you.

An illustration of the effects of compounding is shown in Table 3. I began contributing to my 401(k) when I was 27 years of age. After participating for 16 years, my total contributions are $46,026. Assume that I stop contributing, but continue to keep the total value of my plan invested over the next 16 years in the 401(k) plan. On the other hand, assume that I began to contribute to my 401(k) at the age of 44, contributing 15 percent of my salary, each year, for a 16 year period. An annual cost-of-living adjustment of 3 percent is applied to my current salary for each year. Company contributions are at 24 percent.

Although past performance is not indicative of future performance, the investment performance percentages used for this illustration is a replica of the actual rates earned in my company-sponsored plan over the past 16 years.

TABLE 3
Effects of Compounding

Age Started Saving	27	44
Age Stopped Saving	43	60
Years Saved	16	16
Total Saved	$46,026	$141,771
Approximate Value at 60 Years of Age	$1,026,996	$572,794

Table 3 clearly illustrates the effect of compounding. By investing 16 years earlier I gained $454,202 in additional earnings while having to save $95,745 less. The longer you invest, the more compounding can benefit you.

Let's say I chose not to stay with my current company and reinvested my net savings of $116,814 to earn 8 percent (the government will want ten percent of my ending value to penalize me for withdrawing my 401(k) funds before the age of 59 and a half). At the age of 60 I would have an ending value of $400,197. However, if I began to invest at the age of 44 and hope to end up with the same ending value of $400,197, I would need to save $13,197 each year, at 8 percent, for 16 consecutive years.

Weight the Risk Against the Reward

Being in a 401(k) plan isn't just putting money aside for future needs. It's entering the wild world of Wall Street where there are no guarantees but lots of opportunities.

Risk is probably the most feared word that new investors have to deal with. Risk of inflation is dealt with by everyone--whether investing or not. But, several other types of risk investors must deal with include:

1. The risk that interest rates go up or down because stocks, and in particular bonds prices, are affected by interest rates.

2. The risk that a particular fund will go down in price because one or several of it's big holdings failed.

3. The risk that the whole stock market will be depressed.

In investing in your 401(k) offered investment options, you must always weight the risk of the option against the reward. It should also be weighted against how much of your total account is involved in a particular fund.

In investing, volatility is the ups and downs of the stock market that when made into a graph look like a roller coaster. The volatility of the markets in stocks and bonds is one of the major reasons that you have to know about, and take advantage of, asset allocation and diversification.

While having a mixture of investments doesn't always shelter you from the uncertainties of investing, historically this has been shown to make sense. Concerning diversification, it is important when assembling a portfolio because the securities markets are just too volatile to put too much faith in one kind of investment. Dividing your contributions among different investment varieties lowers that risk.

Use Diversification

If you want your portfolio to produce the income you need after you retire, you have to diversify, or spread your investment money around.

If you have all your money concentrated in one place, your financial security depends on the strength of that particular investment. No matter how sound an investment may be, or was in the past, there are times when it's price falls. So, you must judge each variety of investments offered by your 401(k) on it's own merits and in relation to the rest of your portfolio.

For example, my 401(k) currently offers a Balanced Fund which combines both stock and bond investments--usually at a 60/40 ratio. The addition of the bonds to the fund--which are more stable assets than stocks--makes this fund less risky than a fund that invests entirely in equities, but with lower expected returns. The Balanced Fund in my portfolio earned a rate of return of 14.2 percent in 1996.

In addition, the plan offers several varieties of equity funds. First, the Growth and Income Fund which is a middle-of-the-road equity fund which favors stock of large companies that pay dividends and have the potential for long-term growth in value. During 1996 this Growth and Income Fund offered a return of 20.9 percent. Second is the Equity Index Fund. This fund is managed to mimic the market as much as possible by using a benchmark, usually the Standard & Poor's 500. The investment philosophy is called passive investing--buying everything in the index--the best stocks, the worst stocks and everything in between. In 1996, the Equity Index in my portfolio had a rate of return of 20.1 percent.

Increasingly, real diversification calls for international investments. Because the world economics are linked by round-the-clock trading and stimulated by the opening of new markets, putting money into overseas markets is a good way to balance your investments. The Worldwide Fund offers balance to my portfolio and had a rate of return of 10.5 percent in 1996.

Finally, my 401(k) plan offers Magellan, another equity fund. From 1970 through 1980 Chemical Bank chairman and author Burton G. Malkiel rated the Magellan Fund as the number ten top performer. Then, for the years 1980 through 1990, Malkiel rated Magellan as the number one top performing equity fund (Malkiel 1996, 182). The performance of this fund was far and away the best record over the decade of the 1970's and 1980's. However, the legendary Peter Lynch, who is credited with performing brilliantly as manager of the Magellan Fund, retired in early 1990 (at the ripe, old age of 47). Peter Lynch resigned on May 31, 1990, "leaving the Magellan Fund in uncertain hands" (Evans 1991, 382).

My company offered the Magellan Fund beginning early 1992. In 1996, that fund had the lowest rate of return of the seven different investment varieties offered. The once-number-one performer had a rate of return of a meager 3.2 percent.

The general lessons are that there is no dependable, long-term persistence of investment performance and if you have all your money concentrated in one place, your financial security depends on that particular investment. You can't assure yourself of superior performance by investing in funds which may have had impressive performances in past periods. The past performance of funds does not predict the future and diversification is a necessity.

Typical 401(k) stock fund choices, their approximated investments, risk levels, asset allocation and annualized total returns are provided, see Appendix C.

IV. TWO COMPANY-SPONSORED RETIREMENT PLANS

Whether you work for a company that employs five thousand or a firm that employs fifty, a company-sponsored retirement fund is a benefit all employees should take advantage of.

The 401(k) Plan Offered by Major Companies

The 401(k) plan was conceived and designed in 1981 by Ted Benna, a benefit consultant.

During 1996, 98 percent of companies with more than 5 thousand employees offered 401(k)plans. Of those companies with between 1 thousand and 5 thousand employees, 78 percent offered 401(k) plans (Sasanow 1996, 13). But, one study by KPMG Peat Marwick found that only 61 percent of those eligible employees participated in the offered plans.

Why would 39 percent of eligible employees decide not to participate in a plan that author Eric Schurenberg claims can "shave thousands off this years tax bill, earn a guaranteed return of 25 to 100 percent and not generate a penny of future income tax until you decide to sell" (Schurenberg 1996, 22)?

A 401(k) retirement plan is an employee benefit. The plan is subject to a maze of government regulations, as well as rules imposed by your employer.

A 401(k) plan is an investment and you should manage it like one. Your return will be dependent upon how much you put in, when you invest the money, and how you appropriate your money. Currently, there exists a lighter tax burden on 401(k) investment plans than almost any other kind of investment. In addition, your employer may contribute some money to your plan.

Your invested dollars are tax deferred, meaning you put off paying federal income taxes on those invested dollars. In addition, there is a tax write-off for every dollar you put into the plan because those invested dollars are deducted from your salary. Hence, every dollar you invest into the plan reduces the taxable income you report to the Internal Revenue Service. However, the government doesn't want to lose too much tax revenue--so they set limits on how much you can contribute each year.

Contributing to your 401(k) is painless because it is an automatic payroll deduction. You decide on the percentage to save, usually between 1 to 15 percent of your salary.

The assets of a 401(k) plan must be held in a trust and administered solely for your benefit. Fiduciaries are the people who have decision-making-power over any aspect of the plan. They are to always act on the plan in an informal and prudent way.

Most companies have a waiting period before you can sign-up for their 401(k) investment deduction. You must be 21 years of age in order to participate. In addition, most companies have a waiting period before you become vested. By law, that waiting period can not be longer than one year.

Employers are responsible, by law, to provide you with three basic documents. First, a summary plan description. Second, a summary annual report. Third, your personal benefits statement which shows how your chosen funds performed. From this statement you will see how your money was allocated among the various investment funds, how much you contributed, and if applicable, how much your employer contributed. See Appendix D.

Key features of a 401(k) plan is the degree of flexibility in investing your money. Of the companies that offer their employees a 401(k) plan, 93 percent provide at least 3 investment options--usually investment funds rather than direct investment in stocks or bonds.

A New Retirement Plan

If you work for a smaller firm that doesn't offer a 401(k) retirement plan (possibly due to their perceived costs and complexities) a new retirement plan called SIMPLE could be offered to you in the near future, see Appendix E. SIMPLE is a new retirement program from the government that offers simplicity and is designed to be inexpensive for the firm.

Early in 1997, Congress came up with a retirement program specifically designed for small firms consisting of 100 employees or less. Congress has termed this new program Savings Incentive Match Plan for Employees or SIMPLE. If you work for a small firm that chooses to offer SIMPLE, you could enjoy some of the same kinds of 401(k) features enjoyed by workers of larger companies. This new program could be a powerful, new tool for you to use in achieving financial independence.

Our Children's Retirement Benefits

In a recent USA TODAY article the reader is told of the issue of a transformation of the U.S. Social Security System. Writer Anne Willette states that the current program of government taxes and payments to assist Americans 65 and older could be transformed into a program of employees investing payroll taxes themselves. Subsequently, their retirement income would depend on how well they did with their private Social Security accounts.

There are several ideas being prescribed to replace the Social Security System as it now stands. The easy solution would be to add 2.2 percentage points to the payroll tax. In 1996, as an employee of a company, you paid 6.2 percent of your income, up to a maximum income of $62,700, towards Social Security taxes (Dunnan 1996, 173). Your employer matched that amount for a total Social Security tax percentage of 12.4. Granted, politicians could easily raise that percentage to 14.6. But politicians are loath to raise taxes. So, two other ideas include: to replace some of Social Security with 401(k) type accounts, and to replace the entire System with individual accounts.

Even though most experts site the year 2030 as the year that Social Security payroll taxes will fail at providing 100 percent of benefits due to retirees, change is coming.

V. FINAL NOTE

No matter which idea may be chosen to replace the current Social Security System, and no matter how distant that change may be, the bare fact is that unless all average citizens of this country take responsibility for their retirement, they could end up in country poorhouses.

APPENDIX A

401(K) PLANS-- HOW THEY WORK

401(k) Plans--How They Work

1. Your employer sets up a plan with a regulated investment company, a bank trust department or an insurance company.

2. You set aside part of your salary into a special savings and investment account. You have several options, typically a guaranteed fixed-rate income fund, a stock fund, or a bond fund. The amount set aside is not counted as income when figuring your federal income tax.

3. Most often a firm chips in 25 to 50 cents for each $1 the employee saves. Employer contributions can be up to 25% or $30,000, whichever is less.

4. The maximum you could contribute was $9,250 in 1996. There is a 10% penalty for withdrawing funds before age 59 and a half. The maximum contribution is adjusted annually.

5. If you change jobs or take out the balance in a lump sum before age 59 and a half, you can take advantage of a 5-year averaging, another tax break.

6. You can withdraw money without paying a penalty:
   When you reach 59 and a half
   If you separate from service and you are age 55 when the distribution occurs
   You are disabled
   If you need money for medical expenses that are greater that 7.5 % of your adjusted gross income.

Dunnan, Nancy. Guide to Your Investment $. NY., NY.: Harper Perennial, 1996.

APPENDIX B

THE BEGINNING

You are currently (as of 9/30/81) contributing -0- of your base annual salary.
You have allocated 30% of your contributions to the Fixed Income Fund and 20% of your contributions to the Balanced Fund and 50% of your contributions to the Guaranteed Investment Fund.
You are 100% vested in the value of your contributions.
The pany contributions for the plan year ending 9/30/81 represented -0- of your 1981 contributions. (Note: Participation in the Employee Stock Purchase Plan is not ded in the following summary)
YOU BECOME 100% VESTED IN THE VALUE OF COMPANY CONTRIBUTIONS ON 12/01/82.

Investment Funds	Value As Of 9/30/80	Activity For 1981 Plan Year				Value As Of 9/30/81
		Contributions	Investment Performance	Withdrawals	Transfers	
Your Contributions						
Fixed Income Fund	-0-	$139.53	-$6.44	-0-	-0-	$133.09
Balanced Fund	-0-	$93.03	-$5.89	-0-	-0-	$87.14
Guaranteed Investment Fund	-0-	$232.59	$10.65	-0-	-0-	$243.24
Company Contributions						
Guaranteed Investment Fund	-0-	$116.29	-0-	-0-	-0-	$116.29
ARA Stock Fund	-0-	-0-	-0-	-0-	-0-	-0-
Total	-0-	$581.44	-$1.68	-0-	-0-	$579.76

$465.15 Company Contributions To Date $116.29 -0-

*The market value of one share of ARA Common Stock as of 9/30/81 was $26.50.

Retirement Benefits
If you retire on AUGUST 31, 2019 at age 65, you will receive the balance of your Retirement/Savings and Profit Sharing Account on that date.
In addition, the following Social Security monthly retirement benefits may be payable:

For you	For your spouse at age 62	For your spouse at age 65
$558	$209	$279

If you leave the Company before you retire, be sure to notify the Corporate Benefits Department for payment of your Retirement benefits. You will receive your money in six to eight weeks: no contributions may be left in the Plan.

APPENDIX C

TYPICAL FUND CHOICES

Typical 401(k) Stock Fund Choices

	Risk Level	%Stocks	%Bonds	Annualized Total Returns as of Mid-1995		
				One Year	Three Years	Five Years
Aggressive Growth: High-risk stocks of up-and-coming new firms.	Very High	85%	1.00%	12.8%	12.1%	11.7%
Growth: Mid-size or large company stocks with solid prospect for appreciation.	High	89%	1%	13.5%	10.3%	10.7%
Growth & Income: Stocks of established, dividend paying companies.	High	87%	3%	14.7%	10.1%	10.1%
Equity Index: High-dividend stocks with emphasis on yield.	High	79%	5%	13.6%	10.0%	10.1%
International: Fully or largely invested in stock of foreign exchanges.	Very High	86%	1%	-2.5%	8.5%	6.0%
Balanced: A mix of large-company stocks and bonds.	Medium	53%	34%	11.5%	8.6%	9.9%

APPENDIX D

CERTIFICATE OF PARTICIPATION

ARAMARK

RETIREMENT SAVINGS PLAN
CERTIFICATE OF PARTICIPATION

INVESTMENT	VALUE AS OF 10/01/95	ACTIVITY FOR THIS PERIOD: CONTRIBUTIONS	INVESTMENT PERFORMANCE	OTHER ACTIVITY: CODE		CODE		VALUE AS OF 09/30/96	PERCENT VESTED
EE BALANCED	0.00		463.46	3	7,275.50			7,738.96	100
EE TIC	117,374.23		2,667.09			3	-112,478.07	7,563.25	100
EE WORLDWIDE	0.00		370.56	3	6,705.86			6,335.30	100
EE GROWTH & INC	0.00		1,202.84	3	14,550.97			15,753.81	100
EE EQUITY INDEX	0.00		1,215.01	3	14,550.99			15,766.00	100
EE MAGELLAN	0.00		386.36	3	14,550.97			14,937.33	100
EE OTC	0.00		980.87	3	7,275.49			8,206.36	100
CO STOCK	0.00		3,959.69	3	49,533.19			53,492.88	100
CO COMPOSITE	0.00		[illegible]089.27	3	47,568.29	3	-49,533.19	0.00	100
				5	875.63				
	117,374.23		11,544.03		162,886.89		-162,011.26	129,793.89	

SHARE INFORMATION:

PRIOR SHARE BALANCE	0.0000
SHARES PURCHASED	293.9169
SHARES LIQUIDATED	0.0000
CURRENT SHARE BALANCE	293.9169
COST OF SHARES	49,533.19
SHARE VALUE AS OF 09/96	182.00

ACTIVITY CODES

1 - TERMINATION
2 - WITHDRAWAL
3 - TRANSFERS
4 - MISCELLANEOUS
5 - FORFEITURE
6 - DIVIDEND

PLAN ENTRY DATE 12/01/80

BASIC EMPLOYEE CONTRIBUTIONS: $0.00

772

APPENDIX E

SIMPLE BASICS

SIMPLE Basics

1. You designate the percentage of your wages that you want set aside and invested. Chosen percentage is an automatic deduction.

2. Your annual growth is sheltered from taxes.

3. You are allowed to defer up to $6,000 a year.

4. Your employer must set aside an amount equal to 2% of your wages.

5. Both your savings and the matching savings from your employer are invested in your name and are 100% immediately vested.

6. A SIMPLE plan must be set up at least 60 days prior to the beginning of each calendar year.

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